

BARNESLEY METROPOLITAN BOROUGH COUNCIL

This matter is not a Key Decision within the Council's definition and has not been included in the relevant Forward Plan

**Report of the Director –
Human Resources, Performance
and Communications**

PROVISION OF AN ANNUAL LEAVE PURCHASE SCHEME

1. Purpose of Report

- 1.1 The purpose of this report is to seek approval to offer employees the opportunity to purchase additional annual leave and pay for it through a salary sacrifice arrangement.

2. Recommendations

- 2.1 That approval is given to implement the Annual Leave Purchase Scheme enclosed at Appendix A.**

3. Introduction

- 3.1 The council is committed to the health and wellbeing of all its employees and to allowing employees to achieve a balance between their work and personal lives. The council also needs to be an employer of choice to motivate, recruit and retain a high performing workforce.
- 3.2 Research continues to show that employees seek more from their work than basic salary alone and the council must ensure that its offer to employees continues to be beneficial and attractive.
- 3.3 Employee salary sacrifice schemes are becoming increasingly important as a quick, simple and cost effective way to help recruit, retain and motivate employees by demonstrating that they are valued.
- 3.4 The Council already has a number of benefits that employees can take advantage of and has more recently implemented a number of salary sacrifice schemes including Cycle to Work, Childcare Vouchers and Technology & Mobile Phones. Cabinet also gave approval to explore additional employee benefits including additional annual leave in Cab.25.3.2015/8.4.
- 3.5 A short questionnaire focused on current and future provision of employee benefits was undertaken by the workforce in August/September 2014. Despite a low response rate, the survey did provide useful information as to the likely popularity of proposed new benefits.

Proposed new benefit	% responses quite likely or very likely to use (121 total responses)
Additional Annual Leave	69.4

4. Consideration of Alternative Approaches

- 4.1 The council could choose not to provide this additional employee benefit. Employees would not have the opportunity to purchase additional annual leave which was indicated as a popular option in the employee benefits survey (see paragraph 3.4). The council would lose the opportunity to offer a potentially popular, zero-cost benefit, which could help recruit, motivate and retain the workforce.
- 4.2 The council could procure an external provider to run the scheme rather than developing in-house utilising the ESPO or other similar framework as has been previously used for other employee benefits. However, there are cost implications associated with this. Research indicates that other councils who operate such a scheme implement successfully without the need to incur costs associated with engaging an external supplier.

5. Proposal and Justification

- 5.1 This scheme (attached at Appendix A) provides employees with the opportunity to increase their annual leave entitlement by purchasing additional annual leave. This is then used to supplement contractual annual leave to provide additional flexibility in respect of planned time off work. This may be for a special event or trip or to help with family commitments for example during school holidays.
- 5.2 Payment for additional annual leave would be made via salary sacrifice. This is where the cost is taken via a monthly deduction from an employee's gross salary saving the tax and national insurance contributions the employee would have paid, typically saving up to a third of the amount sacrificed for a basic rate tax payer. The council will also make savings in relation to reduced employer national insurance contributions.
- 5.3 The scheme has been designed to work in line with the annual leave year (April to March) and employees wishing to purchase additional annual leave will be required to submit an online application to request additional leave.
- 5.4 It is proposed that no limit is set with regards to the number of days that can be purchased per leave year (April – March).
- 5.5 Applications will be considered on an individual basis by line managers in line with service delivery to ensure that unreasonable pressures are not placed on the service.
- 5.6 It is proposed that the scheme be developed and managed in-house by Human Resources, Information Services, and Financial Services. There are a number of

external providers who offer to provide this service but research indicates that many council's find it more cost effective to develop and run their own schemes.

5.7 The benefits to the council of an annual leave purchase scheme are:

- Provides a scheme available to all employees to allow them to balance work and personal lives
- Potentially improves employee motivation, loyalty and retention
- Cost savings on employer National Insurance contributions
- Complements existing flexible working policies
- Reduction in sickness levels

5.8 The benefits for employees are:

- Allows opportunity for better work/life balance
- Monthly payments taken directly from salary – affordable and convenient
- National Insurance and income tax savings

5.9 Employees under the age of 18 and those earning the minimum/national living wage are not eligible to participate because of tax regulations.

5.10 There would be no cost to the council to introduce this benefit.

6 Implications for local people /service users

6.1 The scheme has been designed to ensure that when considering an application for additional annual leave service provision must always come first therefore there should be no impact on local people or service users.

7. Financial Implications

7.1 There are no direct financial implications as a result of this proposal. All costs will be recovered from employees by salary deduction in monthly instalments.

7.2 The Council will generate savings in relation to reduced employee costs and reduced employer national insurance contributions however these savings will be one off during the period of the scheme. It is therefore difficult to predict the exact savings year on year that may be generated due to being unable to accurately estimate the take up of the scheme together with the cost of any cover required to ensure services are maintained for those posts that take up the option.

7.3 For illustration purposes the following provides an estimate of the savings that could be generated based on two different graded positions.

EXAMPLE: Employee Full Time Grade 3 £16,231 requesting 5 additional days leave		
Description	Annual	Monthly
Gross Salary Reduction	£312.15	£26.01
NI Saving	£43.07	£3.59
Total Potential Saving to the Council	£355.22	£29.60
Employee Saving; Tax (20%); National Insurance (12%)	£99.89	£8.32

EXAMPLE: Employee Full Time Grade 9 £35,662 requesting 5 additional days leave		
Description	Annual Cost	Monthly Cost
Gross Salary Reduction	£685.80	£57.15
NI Saving	£94.64	£7.89
Total Potential Saving to the Council	£780.44	£65.04
Employee Saving; Tax (20%); National Insurance (12%)	£219.46	£18.29

7.4 Finally, although there is a cost in officer time on the implementation and administration of this new employee benefit package these costs are minimal and therefore can be contained within existing resources.

7.5 Whilst the scheme appears to be cost neutral from a tax planning / HMRC perspective, further investigative work is being undertaken with a view to confirmation. This will be reported upon once available.

8 Employee Implications

8.1 It is proposed that the scheme will apply to all employees including those in locally managed schools (excluding Teachers) where the governing body has adopted the policy.

8.2 Employees must have satisfactorily completed their probationary period and not be on any formal stages of Managing Attendance, Disciplinary or Improving Performance procedures.

8.3 With salary sacrifice schemes, if an employee leaves before the end of the loan period the amount that is owed to the Authority is calculated and arrangements will be made for this to be deducted from the employee's final salary payment.

- 8.4 The Local Government Pension Scheme regulations indicate that annual leave salary sacrifice schemes do not affect the Local Government Pension Scheme contributions paid by the employee.
- 8.5 During periods of maternity leave, shared parental leave, adoption leave or sickness absence monthly payments will continue unless the employee enters a period of unpaid leave or in an SMP/SSP situation. In these situations, the salary reduction payments will be suspended by the number of missed monthly reductions to pay. Upon return to paid employment, the employee's obligation to allow the reduction to monthly gross pay will resume, continuing until all monthly deductions have been made.
- 8.6 Employees who are absent from work for any other reason, where normal salary continues to be paid, will continue to have salary reductions as per the salary sacrifice agreement.
- 8.7 By entering a salary sacrifice agreement, an employee agrees to give up part of their salary in return for use of the equipment. As basic pay is reduced, eligibility for state benefits for example, Working Tax Credits or Child Tax Credits may be affected, and also sick pay and maternity pay etc. A salary check will be undertaken before an agreement is authorised to ensure that any deductions do not take an employee below the minimum/national living wage. Employees will be advised to take independent advice if they are in any doubt about their personal financial situations.

9 Communications Implications

- 9.1 There will be a launch of the proposed scheme undertaken by Human Resources, Performance & Communications. This will be promoted through the Employee Benefits Facebook Group, Straight Talk, the intranet and on the Recruitment website.

10 Consultations

- (a) **Financial Implications** – Financial Services have been consulted on this report and the financial implications are detailed in section 7.
- (b) **Employee Implications** – These are detailed in Section 8.
- (c) **Legal Implications** – Legal Services have reviewed and approved the contract terms.
- (d) **Policy Implications** – No implications.
- (e) **Health and Safety Considerations** – No implications.

- (f) **Implications for Other Services** – Consultations have also taken place with the Council’s Information Services who will provide technical support with the design of the on-line solution for managing the scheme. Consultations have also taken place with Financial Services around the payroll administration of the scheme.

11 Tackling Health Inequalities

11.1 No implications.

12 Climate Change and Sustainable Energy Act 2006

12.1 No implications.

13 Risk Management Issues, Including Health and Safety

13.1 There is a risk associated with approving an application for additional leave in terms of potential effect on service provision. Service provision must always come first and the responsibility for ensuring service provision is maintained rests with the manager of the employee requesting additional leave under the scheme.

13.2 There are also risks around employees leaving that have to be managed accordingly. If an employee leaves before the end of the loan period the amount that is owed to the Authority is calculated and arrangements will be made for this to be deducted from the employee’s final salary payment.

14 Promoting Equality, Diversity and Social Inclusion

14.1 Employees earning the minimum/national living wage are prevented by legislation from participating in these schemes. This is beyond the control of the council but is considered unlikely to cause any serious equality issues as the council pays the living wage, which is a greater hourly rate than the minimum/national living wage.

14.2 It is considered that there are no other direct equality impacts arising from these proposals. However, analysis of the equality profile of applicants for the revised employee benefit packages will be undertaken, once the scheme has closed, to assess whether this differs from overall equality profile of the workforce. Findings of this monitoring will inform future reviews of this policy.

15 Glossary

ESPO	Eastern Shires Purchasing Organisation
NI	National Insurance
SMP	Statutory Maternity Pay
SSP	Statutory Sick Pay

16 List of Appendices

Appendix 1 - Annual Leave Purchase Scheme

17 Background Papers

Contained in working files in Human Resources and are available for inspection.

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